106th Congress, 1st Session: No. 4 **February 8, 1999**

INFORMED BUDGETEER

OVERVIEW OF PRESIDENT CLINTON'S 2000 BUDGET

The two tables below were included in the Senate Budget Committee analysis of the President's 2000 Budget Submission. The full function by function review is available on the web and through our office, but for a cursory examination these two summary tables should be helpful.

Surpluses in the President's 2000 Budget
$ in Billions

	2000	2001	2002	2003	2004	5-year
Current services[A]	116.7	134.	186.	182.	207.	
Discretionary	-10.2	1	7	0	6	-182.7
Mandatory	-0.6	-36.5	-49.3	-44.6	-42.1	+1.2
Revenue increase	+11.2	+0.8	+0.5	+0.6	-0.1	+45.8
Debt service	- - -	+8.7	+9.1	+8.7	+8.2	-13.6
Total surplus used	+0.6	-0.7	-2.3	-4.3	-6.3	-151.1
Resulting surplus	117.3	-27.0	-43.2	-40.8	-40.4	
		107.	143.	141.	167.	
		2	6	3	3	

[A]capped surplus. NOTE: Details may not add to totals due to rounding.

Aggregate Budget Totals
$ in Billions

	2000	2001	2002	2003	2004	5-year
Discretionary:						
Defense	262	269	279	291	301	1,411
Nondefense	330	343	343	345	348	1,709
Subtotal	592	612	623	636	649	3,120
Mandatory:						
Medicare	214	228	232	250	263	1,186
Medicaid	117	126	135	146	157	681
Social Security	405	424	444	465	487	2,225
Other mandatory	223	229	233	249	263	1,197
Subtotal	959	1,00	1,04	1,11	1,17	5,290
Net interest	215	7	4	0	0	986
Total spending	1,766	207	197	188	179	9,377
Revenues	1,883	1,83	1,86	1,93	1,99	10,064
Surplus	+117	6	4	4	8	+676
		1,93	2,00	2,07	2,16	
		3	7+14	5	6	
		+107	4	+141	+167	

TRANSFERRING DEBT, NOT SURPLUSES

- The President says he wants to "devote" 62 percent of the surplus to Social Security and 15 percent to Medicare. Here's the problem: **you can't transfer a unified budget surplus to a government trust fund.**

- By definition, a unified budget surplus means that total revenues to the government exceed total spending. If you credit Social Security and Medicare with trillions in new assets, that does not change the unified budget surplus at all.

- Total revenues will still exceed total spending, and that is what reduces debt held by the public, not the transfer to Social Security and Medicare.

- **The only real effect of the President's proposal is to transfer $5.3 trillion in new government debt to the trust funds that taxpayers will have to pay someday.**

- Without this transfer of new debt, we would have to reform Social Security and Medicare to make revenues and spending line up. **Instead the President commits future taxpayers to repay this $5.3 trillion transfer without saying how we will pay for it.**

DO THE PRESIDENT'S POLICIES REDUCE THE DEBT?

- Let's tell it straight **-** the President's policies contained in his Social Security framework <u>do not</u> reduce the debt. As detailed elsewhere in the *Bulletin*, the existence of a unified budget surplus is what reduces the debt held by the public.

- Both debt held by the public and gross federal debt are higher if one assumes the President's Social Security framework than if one does not.

- By 2009, debt held by the public is over $1 trillion higher assuming the Social Security framework. Gross federal debt is over $2.8 trillion higher assuming the Social Security framework.

President's Policies' Effect on the Debt
$ in billions

	1998	2000	2004	2009
	Debt Held by the Public			
President's Budget				
without Social Security	3,720	3,572	2,926	1,398
with Social Security	3,720	3,604	3,290	2,466
Difference	--	+32	+364	+1,068
	Gross Federal Debt			
President's Budget				
without Social Security	5,479	5,711	5,874	5.537
with Social Security	5,479	5,831	6,776	8,347
Difference	--	+120	+902	+2,810

SOURCE: OMB

DEBT 101: THE TWO TYPES OF DEBT & HOW THE PRESIDENT'S BUDGET AFFECTS THEM

- As many Informed Budgeteers know there are two types of Debt: **gross federal debt** and **debt held by the public**. Since debt and repayment of debt is becoming a major part of this year's budget debate, the *Bulletin* thought it would be useful to do a refresher course on the definitions of each.

- **Gross federal debt** is comprised of the total outstanding holdings of debt securities of all Federal agencies as well as debt held by the public. This includes debt that the federal government owes itself, that is, debt that has been issued to federal accounts and trust funds. For example, at the beginning of FY 1999, the Social Security trust funds held $730 billion in debt securities that have been issued by the Treasury Department. The current statutory limit on the debt and most debt clocks generally apply to gross federal debt.

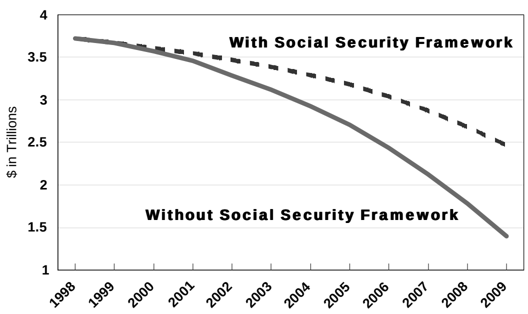
- **Debt held by public** is debt held outside the federal government. Debt held by the public includes debt issued to private individuals and corporations, local, state, and foreign governments, and the Federal Reserve System. Debt held by the public does not include debt held by federal accounts and trust funds, such as the Social Security trust fund. The President has recently emphasized the reduction in the debt held by the public.

- As discussed earlier, the Social Security Framework in the President's budget does nothing to reduce debt. In the case of the debt held by the public, the President spends a portion of the Social Security surplus, which means this debt does not fall as fast as it otherwise would.

- In the case of gross federal debt, the President double-counts Social Security surpluses to transfer additional funds to the Social Security and Medicare trust funds. Not even the President can spend the same money twice. In order to finance these transfers, gross federal debt explodes.

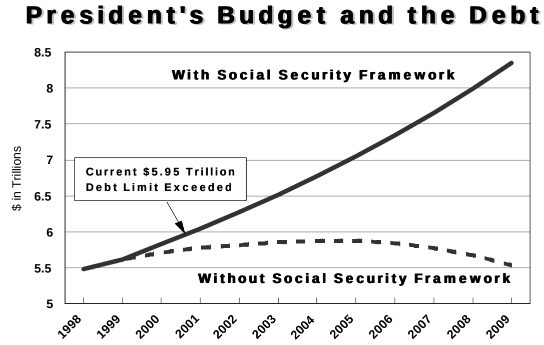
- The charts below show the effect of the President's Budget on both of these categories with and without Social Security framework.

President's Budget and Debt Held by the Public



Source: OMB data

President's Budget and the Debt



Source: OMB data

PRESIDENT SPENDS THE SOCIAL SECURITY SURPLUS

- The President admonished Congress last year not to spend the Social Security surplus for tax cuts. Imagine our surprise, when we realized that his budget framework spends $146 billion (or 20 percent) of Social Security's FY2000-2004 surplus on new programs unrelated to Social Security.

- Previously, the Administration had argued that it didn't matter if Social Security needed the money this year or not — the funds belonged to Social Security and it was irresponsible to spend SS' money on non-related programs or tax cuts.

- Many in Congress are keen to follow the Administration's original advice to save the Social Security surplus in its entirety. Indeed, such a plan would produce a lower publicly held debt and gross debt level in 2009 than the President's latest plan.

OMB Budget Projections
$ in Billions, Assuming Social Security Framework

	2000	2001	2002	2003	2004	2000-04
Unified Surplus	117	134	187	182	208	828
Disc. Spending	—	26	21	37	34	138
USA Accounts	14	16	22	21	24	96
Debt Service	0	2	4	8	11	24
Resulting Surplus	103	90	120	117	140	570
OMB SS Surplus	130	134	142	151	158	715
Difference[A]	**-27**	**-44**	**-22**	**-34**	**-18**	**-146**

[A]amount of Social Security Surplus that OMB spends.

ECONOMICS

CEA'S ECONOMIC REPORT

- The Council of Economic Advisors released its annual Economic Report of the President last week.

- It noted that the current expansion is now the longest peacetime expansion on record. Since its onset, almost 19 million jobs have been created while real wages are finally rising after two decades of decline.

- After posting roughly 4 percent growth in 1998, CEA looks for real GDP growth to slow to a more sustainable 2 percent pace this year. However, CEA sees few signs to indicate any imminent recession, believing that the economy's fundamentals are still very sound.

- The CEA credits the improving fiscal position as a key driver behind today's strong economy. They note that the US net national savings rate has roughly doubled since 1992, from 3 to 6.5 percent — its highest level since 1982.

- They note that low import prices, falling computer prices, and subdued medical inflation have kept US inflation in check. In addition, technical CPI changes by the Bureau of Labor Statistics have shaved CPI growth by 0.7 percentage points since 1994.

- CEA also noted that the global financial crisis caused US exports to fall 1 percent last year, as one third of the world economy slid into recession. However, the crisis' impact on the US economy has had benefits too — it lowered US interest rates through safe-haven flows and thus boosted consumption and investment.

CALENDAR

BUDGET COMMITTEE HEARING SCHEDULE

All hearings will be held in Dirksen 608 at 10:00 am unless otherwise noted. Additional hearings may be scheduled.

February 9: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Madeline Albright, Secretary of State.*Hearing will be held at 9:30 am.
February 11: **The President's Fiscal Year 2000 Budget Proposal;** Witness: Health & Human Services Secretary Donna Shalala. *Hearing will be held at 1pm.
February 12: **The National Defense Budget: Are We on the Right Course?;** Witnesses: Dr. James R. Schlesinger, Chairman, MITRE; Robert Zoellick, President, Center for Strategic International Studies; Dr. Lawrence Korb, Council on Foreign Relations. *Hearing will be held at 9:30 am. (Rescheduled from January 25).
February 23: **Framework for Social Security and Medicare Reform;** Witnesses: Director of CBO, Dr. Dan Crippen. Additional witnesses to be announced. Time TBA.

March 2: **President's Fiscal Year 2000 Budget Proposal;** Witness: Secretary of Defense, William Cohen. *Hearing will be held at 2:00pm.